Time to take another look at branch capture?

Five developments make it worthwhile for banks with large branch networks to revisit capture decision

BY GARY STEIN

The branch capture concept is not new. In fact, we estimate that 60-70% of all U.S. banks and thrifts have some form of branch capture in place today, whether at the teller line, back counter, or in a hybrid format that provides front capture for dedicated commercial windows and back capture for all others.

This statistic, however, is dominated by smaller institutions, and many larger competitors remain holdouts. Historically, regionals and super-regionals with extensive branch networks have been challenged to justify the hardware, software, and other costs related to deploying branch capture. A number of ongoing and anticipated developments should improve the attractiveness of implementing branch capture, though. Here are the most important:

1. *Banks no longer have to decide* whether *to convert checks to images—just* when. Almost every bank in the U.S. exchanges and settles *images* today, and 99% of all check payments are now processed in image format. This March, the Federal Reserve closed its Atlanta paper check processing site, leaving the Cleveland office as the last remaining facility. Banks that still process and exchange paper

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that are beyond driving distance to Cleveland must now send items via air and thus have increased risk to their settlement process due to weather delays, etc. For everyone else, the move to image-based settlement and clearing has helped to bolster the case for branch capture.

Once a financial institution decides to convert paper to images, the decision must be then made as to when and where images are to be generated and the paper is to be truncated. Imaging at the beginning of the workflow—at the branch, ATM, or the client site—eliminates the need for physical transportation of payment items and reconciliation of the paper item and teller entry, therefore minimizing costs and risks.

2. ***An increasing number of mergers will create more demand for branch capture.*** Merger activity is expected to pick up, which will help make the case for branch capture by creating attractive opportunities for consolidating item-processing centers. Banks utilizing branch capture require fewer back-office resources, equipment, and space. They are able to spread processing volumes throughout the day as images are generated. Thus, banks combining branch networks are more likely to be able to process all items through a single, existing operations center when most or all of the branches are imaging. Because capture removes the need for physically transporting paper payment items, operations center consolidation is viable for out-of-footprint acquisitions as well as in-market mergers.

3. ***Major technical hurdles and related expenses are diminishing.*** Many banks with large branch networks have held off replacing antiquated front-line technologies due to cost. This may be changing. Celent predicts North American IT spending will approach $50.9 billion in 2010, an increase of about $600 million from 2009, with virtually all of the 2010 growth coming from new technologies versus maintenance of existing systems. Transaction processing, in particular, is a keen focus across the industry, and we anticipate that institutions that have not done so already have or will contemplate replacing outdated and offline teller systems. Teller platform upgrades typically enable the introduction of teller capture by requiring banks to replace teller station hardware and software. The result: Incremental cost for deploying teller capture is much less significant and the business case is easier to justify.

The branch capture business case is also aided by a decline in the price of scanner hardware by approximately 75% from when

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the technology debuted. Additionally, communications costs between branches and ops centers is far less expensive now. A Northwestern University study shows that 2009 data transmission costs are approximately 45% lower than in 2004—when Check 21 made branch capture a consideration.

4. *Branch capture can enhance the customer experience.* Deposit service charges as a percentage of average assets have declined steadily from a peak of 38 basis points in 2002 to 29 basis points today. As a result, many banks have refocused growth strategies on relationship development, and specifically, on increasing retail banking profitability via deeper cross-sales, higher average balances, and greater customer loyalty. A number of institutions are looking to create and nurture primary customer relationships by providing a differentiated experience that resonates with targeted customer segments. In addition, much of the industry seeks to rebuild customer trust and meet expectations set by other retail businesses. Branch capture can help to improve the customer experience by supporting faster deposit settlement, funds availability, later branch operating hours, and the sharing of transaction information across channels. Furthermore, teller capture enables frontline staff to resolve item exceptions with the customer present and reduces the need for making and communicating back-office adjustments after the fact.

Perhaps most importantly, teller capture can enable faster window processing and shorter customer wait times. Jack Henry's Goldleaf Financial Solutions claims that teller capture reduces frontline keystrokes by as much as 80% related to processing paper transactions.

5. *Changes in customer behavior will limit deployment costs.* Check volumes are dropping precipitously as card and electronic channels claim an increasing share of all payment activity. According to *The Nilson Report*'s December 2009 issue, U.S. check transactions fell from 27.59 billion in 2003 to 19.86 billion in 2008. The 10-year decline is expected to hit nearly 50% by 2013, when Nilson forecasts check volumes of 14.85 billion. All other forms of paper payments are headed in the same direction. Many banks report branch teller volumes to be flat as new customers mask declining per customer activity. This trend is one likely driver of another significant observation: a reduction in net new branches. *Our analysis of SNL Financial data projects that industry-wide branch closings may outnumber de novo openings in 2010, the first time in over a decade.*

Couple these trends with many banks' push to drive more customer self service, and at least one component of the cost of branch capture implementation—the number of deployments—is probably not likely to increase anytime soon. (At the same time, volumes are not declining so fast that consideration of branch capture is moot.)

Adoption of branch capture may not be appropriate for all banks. Given the trends outlined, and the fact that branch capture technology allows for flexible deployment, now is the time to revisit the issue. ■

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